DOCUMENT 2

INITIAL STATEMENT OF REASONS

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SECTION 19200. LOANS ELIGIBLE FOR INSURANCE

SECTION 19205. LOAN TERMS--MAXIMUM LENGTH AND LOAN TO VALUE RATIO

SPECIFIC PURPOSE OF THE PROPOSED AMENDMENTS

The California Housing Finance Agency ("CalHFA") is a mortgage lender. The mission of the CalHFA is to finance below market rate loans to create safe, decent and affordable rental housing and to assist first time homebuyers in achieving the dream of homeownership.

Section 19200 authorizes the CalHFA to provide mortgage insurance for CalHFA loans and certain non-CalHFA loans. The proposed amendment would make additional non-CalHFA loans eligible for CalHFA mortgage insurance.

Section 19205 authorizes the CalHFA to provide mortgage insurance for loans secured by liens on real estate in an amount not to exceed 97% of the fair market value of the real estate ("loan-to-value ratio"). The proposed amendment would increase the allowable loan-to-value ratio to 107% of the fair market value of the real estate.

FUNDAMENTAL REASONS THE PROPOSED AMENDMENTS ARE REASONABLY NECESSARY TO CARRY OUT THEIR PURPOSE

The Legislature enacted Part 4 of Division 31 of the Health and Safety Code because it found that California's public and private lending institutions were not making mortgage financing available for certain single family and multifamily residential housing occupied or intended to be occupied by substantial numbers of persons and families of low and moderate income because of the perceived risks these loans entail and because of an inadequate supply of mortgage insurance. The Legislature found that the absence of mortgage financing has caused and contributed to the deterioration of residential neighborhoods, has inhibited government in its attempts to arrest and reverse deterioration through local code enforcement programs, and has generally reduced or limited the supply of safe, decent, and sanitary housing available to persons and families of low and moderate income. The Legislature concluded that it would be in the interests of the public's health and safety to encourage homeownership opportunities for low and moderate income households and to encourage multifamily residential construction and rehabilitation to revitalize the state's economy and provide security for these households.

By making mortgage insurance available to additional non-CalHFA lenders (Section 19200), the CalHFA will: (1) stimulate a broad range of homeownership opportunities for hard to qualify borrowers; (2) serve its mission to finance below market rate loans to create safe, decent and affordable rental housing and to assist first time homebuyers in achieving the dream of homeownership; and (3) satisfy the Legislative intent to encourage homeownership opportunities for low and moderate income households and to encourage multifamily residential construction. The CalHFA has always had the statutory authority to insure non-CalHFA loans. The regulation at issue, which provides that the CalHFA will insure its own loans, is outdated and should have been repealed or amended when the CalHFA began insuring substantial numbers of non-CalHFA loans. The amendment to the regulation thus simply clarifies existing practice.

By increasing the loan-to-value ratio (Section 19205), the CalHFA will: (1) be able to provide more innovative mortgage insurance products, such as combinations of first and second loans that will lend amounts over 100% to fund up front mortgage insurance premiums and buy downs of interest rates; (2) serve its mission to finance below market rate loans to create safe, decent and affordable rental housing and to assist first time homebuyers in achieving the dream of homeownership; and (3) satisfy the Legislative intent to encourage homeownership opportunities for low and moderate income households and to encourage multifamily residential construction.

FACTS, EVIDENCE, DOCUMENTS, TESTIMONY, AND OTHER MATERIAL RELIED UPON IN PROPOSING THE AMENDMENTS

The following materials were relied upon in proposing the amendments. Item #1: CalHFA Staff Report dated December 20, 2002. Item #2: Resolution 03-10 approved by the CalHFA Board of Directors at the public meeting on January 9, 2003. Item #3: Testimony by CalHFA General Counsel at the public meeting on January 9, 2003. These items are fully discussed below. Copies of these items are attached as exhibits to this statement.

The CalHFA did not rely on any other facts, evidence, documents, testimony, or other material in proposing the amendments.

<u>Item #1: CalHFA Staff Report dated December 20, 2002</u>

(attached to this statement as Exhibit 1)

The CalHFA conducted a thorough review of its mortgage insurance operations and prepared a staff report indicating its findings and conclusions. The staff report, dated December 20, 2002, prepared by the CalHFA General Counsel, was presented to the CalHFA Board of Directors for consideration at the public meeting held on January 9, 2003.

Section 19200: The staff report found that: (1) the regulation makes a distinction between CalHFA loans and non-CalHFA loans in terms of what types of loans are eligible for mortgage insurance; (2) the regulation is outdated; and, (3) elimination of the distinction would reflect the current business practice of insuring loans made by both the CalHFA and non-CalHFA lenders. The staff report concluded that the regulation needs to be updated (amended) by eliminating the distinction to reflect the current business practice of insuring both CalHFA and non-CalHFA loans.

Section 19205: The staff report found that: (1) the regulation sets the loan-to-value ratio at 97% of value of the real property security on insured loans; (2) the regulation is outdated; and, (3) increasing the loan-to-value ratio will permit the CalHFA to offer more innovative mortgage insurance products. The staff report concluded that the regulation needs to be updated (amended) by increasing the loan-to-value ratio to 107% of value.

Item #2: Resolution 03-10 approved by the CalHFA Board of Directors at the public meeting on January 9, 2003

(attached to this statement as Exhibit 2)

The CalHFA general counsel prepared proposed amended text for Sections 19200 and 19205 and submitted a proposed Resolution 03-10 to the Board of Directors at the public meeting held on January 9, 2003.

Section 19200: The proposed amended text eliminated the distinction between CalHFA and non-CalHFA loans in terms of what types of loans are eligible for mortgage insurance.

Section 19205: The proposed amended text increased the loan-to-value ratio to 107% of value on loans eligible for mortgage insurance.

Resolution 03-10, as proposed, was approved by the Board of Directors at the public meeting held on January 9, 2003.

Item #3: Testimony by CalHFA General Counsel at the Public Meeting on January 9, 2003

(attached to this statement as Exhibit 3)

The CalHFA General Counsel presented proposed Resolution 03-10 to the Board of Directors at the public meeting on January 9, 2003.

Section 19200: The CalHFA General Counsel stated that: (1) the CalHFA currently insures both CalHFA and non-CalHFA loans; (2) the regulation needs to be updated (amended) to eliminate the distinction between CalHFA loans and non-CalHFA loans in terms of what types of loans are eligible for mortgage insurance; and, (3) the proposed amendment would simply bring the regulation into conformity with the current business model.

Section 19205: The CalHFA General Counsel stated that: (1) the CalHFA can set loan-to-value limitations on insured loans; (2) the regulation needs to be updated (amended) to increase the loan-to-value limit to 107% of value to reflect where the market is today on mortgage insurance products; and, (3) private mortgage insurers are allowed to insure loans up to 103% of value.

The Board of Directors considered the matters and concluded that the proposed amendments should be allowed. Resolution 03-10 was approved.

REASONABLE ALTERNATIVES TO THE AMENDMENT AND THE AGENCY'S REASONS FOR REJECTING THOSE ALTERNATIVES

No other alternatives were presented to or considered by the CalHFA. The CalHFA has determined that there are no alternatives which would be more effective in carrying out the purpose of the proposed amendments. The proposed amendments must be adopted in order to reflect the current business practice of the CalHFA and to reflect where the market is today on mortgage insurance products.

REASONABLE ALTERNATIVES TO THE PROPOSED REGULATORY ACTION THAT WOULD LESSEN ANY ADVERSE IMPACT ON SMALL BUSINESS.

The CalHFA has not identified any alternatives that would lessen any adverse impact on small business. The CalHFA has determined that the proposed amendments do not affect small business. The amendments apply only to the CalHFA for purposes of insuring mortgage loans. Small business does not compete with CalHFA to offer mortgage insurance products.

EVIDENCE SUPPORTING FINDING OF NO SIGNIFICANT ADVERSE ECONOMIC IMPACT ON ANY BUSINESS

The CalHFA has determined that the proposed amendments will have no significant adverse economic impact on any business because the amendments simply clarify internal CalHFA procedures and permit the CalHFA to offer additional mortgage insurance products. On the other hand, the amendments will have a positive effect on business because the CalHFA will be able to provide mortgage insurance for hard to qualify borrowers that would otherwise not be served by private mortgage companies. The result is that there will be an increased volume of mortgage lending because a greater number of low and moderate income first time homebuyers will qualify for mortgage loans.

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